

Message Text

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ACTION NEA-12

INFO OCT-01 ISO-00 EB-11 CIAE-00 DODE-00 PM-07 H-03 INR-10

L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 ACDA-19 IO-14 DRC-01 AID-20 OMB-01 TRSE-00

IGA-02 /158 W

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R 151428Z NOV 73

FM AMEMBASSY TEL AVIV

TO SECSTATE WASHDC 0555

C O N F I D E N T I A L SECTION 1 OF 2 TEL AVIV 9274

E O 11652: GDS

TAGS: EAID IS

SUBJECT: ISRAEL'S REQUEST FOR ADDITIONAL ECONOMIC ASSISTANCE

REF: A. STATE 220956 B. TEL AVIV 8821

1. SUMMARY: AFTER STUDY OF SHER CONVERSATIONS AND PAPER, WE AGREE WITH ESTIMATE OF DEFICIT ON GOODS AND SERVICES DURING 1973 OF ABOUT DOLS 1.5 BILLION, TO WHICH MUST BE ADDED AMOUNT OF EMERGENCY DEFENSE IMPORTS FROM U.S. SINCE WAR BEGAN. HOWEVER, REFTEL (A) SUFFERS FROM GRAVE DEFECT OF GLOSSING OVER CAPITAL INFLOW WHICH IS AVAILABLE TO COVER DEFICIT. WE NOW ESTIMATE THAT CAPITAL IMPORTS DURING 1973 WILL REACH DOLS 2.3 BILLION, EXCLUDING ANY USG ASSISTANCE DERIVING FROM ADMINISTRATION'S REQUEST FOR DOLS 2.2 BILLION IN NEW AUTHORITY FOR ISRAEL. WE SEE NO PRESENT REQUIREMENT FOR DEBT RESCHEDULING OR OTHER FORM OF DEBT RELIEF. HOWEVER, EXTENT OF EMERGENCY DEFENSE IMPORTS AND HOW THEY ARE FINANCED WILL AFFECT THIS ASSESSMENT. I SEE ECONOMIC AND POLITICAL ADVANTAGE IN EARLY CONGRESSIONAL ACTION ON AUTHORIZATION AND ADMINISTRATION DECISION TO EXTEND GRANT AID TO ASSURE PAYMENT FOR RESTORATION OF ISRAEL'S MILITARY STRENGTH AT LEAST TO STATUS QUO ANTE BELLUM, WHICH WE ASSUME WILL BE ABOUT DOLS 1 BILLION. THIS WILL MEET ISRAEL'S IMMEDIATE NEEDS. BEFORE WE GO FURTHER, WE SHOULD
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CONTEMPLATE FURTHER EXCHANGE OF FUTURE PROGRAMS AND DECIDE

WHERE WE WANT TO GO.
END SUMMARY...

2. PAPER WIDELY DISTRIBUTED IN WASHINGTON BY ISRAELI ECON MINISTER SHER ON NOV 6 HAD BEEN UNDER DISCUSSION WITHIN GOI, BUT HAD NOT BEEN FULLY CLEARED: SHER OBVIOUSLY WENT AHEAD ANYWAY. IN DISCUSSION WITH EMBOFFS DAVRATH (FINMIN SAPIR'S ECONOMIC ADVISER) TOOK NOTABLY CAUTIOUS POSITION ON STATISTICS QUOTED IN PAPER. HE THOUGHT IT WOULD BE SEVERAL WEEKS YET BEFORE GOI WOULD BE IN POSITION TO KNOW WHERE IT STOOD. IN PARTICULAR, HE FELT IT WAS TOO EARLY TO FORECAST 1974; WE FULLY AGREED. IN THIS MESSAGE, WE CONCENTRATE SOLELY ON OUTLOOK FOR REMAINDER OF 1973. PRELIMINARY ANALYSIS OF CONSIDERATIONS FOR U.S. AID IN 1974 WILL FOLLOW PROMPTLY.

3. OUR DISCUSSIONS WITH DAVRATH GENERALLY SUPPORT ESTIMATES IN PARA 4 (REF A) OF IMPORTS DOLS 3.7 BILLION AND EXPORTS DOLS 2.2 BILLION FOR 1973, IF EXTRAORDINARY RECENT MILITARY SHIPMENTS ARE EXCLUDED. IMPORT FIGURE INCLUDES ABOUT DOLS 550 MILLION IN DIRECT DEFENSE IMPORTS ORIGINALLY CONTEMPLATED FOR 1973. SHER'S EXAGGERATED ESTIMATES IN PARA 2(B) (REF A) OF SHORTFALL OF DOLS 500 MILLION IN EXPORTS AND INCREASE OF DOLS 400-500 MILLION IN IMPORTS CANNOT RPT NOT BE MADE CONSISTENT WITH ESTIMATES IN PARA 4, (REF A) AND SHOULD BE IGNORED. DEFICIT ON GOOD AND SERVICES THUS WOULD BE ABOUT DOLS 1.5 BILLION, TO WHICH MUST BE ADDED EMERGENCY DEFENSE IMPORTS FROM U.S. FROM BEGINNING OF WAR TO END OF 1973. FIGURE OF ABOUT DOLS 1 BILLION WAS CITED BY ACTING SECRETARY RUSH IN TESTIMONY ON NOV 5 WHEREAS SHER PAPER IMPLIES BILL WILL BE DOLS 2.2 BILLION. DEPT CAN ESTIMATE FIGURE FOR YEAR BETTER THAN WE.

4. SHER'S PAPER, HOWEVER, HAS GRAVE DEFECT OF GLOSSING OVER HEAVY CAPITAL INFLOW. EMB ESTIMATED IN JULY THAT CAPITAL IMPORTS WOULD REACH DOLS 1.7 BILLION DURING 1973. THIS ESTIMATE IS OUTDATED NOW BY SURGE OF GIVING STIMULATED (AS IN 1967) BY WAR. DURING JANUARY - JULY INSTITUTIONAL TRANSFERS TOTALED DOLS 201 MILLION PERSONAL TRANSFERS DOLS 219 MILLION, AND GERMAN PERSONAL RESTITUTIONS DOLS 145 MILLION; THESE ARE ALL AT OR AHEAD OF PACE FORECAST FOR UNILATERAL TRANSFERS IN OUR A-217 OF CONFIDENTIAL

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JULY 26. INSTITUTIONAL TRANSFERS DURING AUGUST-SEPTEMBER SHOULD HAVE EXCEEDED DOLS 50 MILLION; DURING OCTOBER DOLS 400 MILLION WAS COLLECTED (TEL AVIV 8750); AND TOTAL OF DOLS 75 MILLION FOR NOVEMBER-DECEMBER WOULD BE REASONABLE. DURING 1973 THEREFORE, INSTITUTIONAL TRANSFERS SHOULD AMOUNT TO AT LEAST DOLS 725 MILLION, OR ABOUT DOLS 450 MILLION MORE THAN WE FORECAST IN JULY. ISRAEL BOND SALES HAVE ALSO BEEN SHARPLY STIMULATED BY WAR. SALES DURING JANUARY-JULY AMOUNTED TO DOLS 164 MILLION, AND

PROBABLY REACHED ABOUT DOLS 200 MILLION THROUGH END OF SEPTEMBER.
DOLS 210 MILLION WAS REPORTEDLY SOLD IN OCTOBER, WHILE ESTIMATE
OF DOLS 75 MILLION FOR NOVEMBER-DECEMBER WOULD BE REASONABLE.
ACCORDINGLY WE NOW WOULD EXPECT BOND SALES TO REACH DOLS 485
MILLION FOR YEAR OR ABOUT DOLS 150 MILLION MORE THAN PREVIOUSLY
ESTIMATED.

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C O N F I D E N T I A L SECTION 2 OF 2 TEL AVIV 9274

5. ACCORDINGLY, WE NOW CONSERVATIVELY ESTIMATE CAPITAL INFLOW
INTO ISRAEL TO BE DOLS 600 MILLION HIGHER THAN EXPECTED EARLIER--
OR DOLS 2.3 BILLION, EXCLUDING ANY AID WHICH WOULD DERIVE FROM
ADMINISTRATION'S REQUEST FOR DOLS 2.2 BILLION IN NEW AUTHORITY.
6. SHER, WHO IS A LAWYER AND NOT AN ECONOMIST, HAS USED BEWIL-
DERING ARRAY OF NUMBERS IN DESCRIBING ISRAEL'S NEEDS FOR 1973
AND 1974. OBVIOUSLY HIS CRUCIAL OMISSION IS EXCLUSION OF CAPITAL
INFLOW FROM EQUATION. AS NOTED IN PARA 3 ABOVE WE ESTIMATE 1973
DEFICIT ON GOODS AND SERVICES WILL BE DOLS 1.5 BILLION PLUS
AMOUNT OF EMERGENCY DEFENSE IMPORTS SINCE WAR: AND TO PAY FOR THIS
ISRAEL WILL HAVE DOLS 2.3 BILLION FROM CAPITAL INFLOW, PLUS
WHATEVER USG AID IS FORTHCOMING FROM ADMINISTRATION'S DOLS 2.2
BILLION REQUEST. THIS AMOUNTS TO MUCH LESS THAN DIRE
EMERGENCY PORTRAYED BY SHER.

7. FROM OUR VANTAGE POINT, WE CAN SEE NO ADVANTAGES TO ACCEPTING

SHER'S SCHEME FOR HANDLING AMOUNTS OWED UNDER PREVIOUS FMS DEBTS. IT IS SLIGHT VARIANT OF GWD PERSONAL IDEA HE HAS BEEN PUSHING ALMOST A YEAR (TEL AVIV 0626). WHATEVER IT WOULD BE CALLED IT WOULD REPRESENT ADDITIONAL U.S. AID, AND WE BELIEVE IT SHOULD BE SO IDENTIFIED TO BOTH ISRAELI AND U.S. PUBLICS. WE WILL COMMENT FURTHER IN CONTEXT OUR FORTHCOMING LOOK AT CONFIDENTIAL

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1974 AID.

8. AS OUTLINED IN EMBASSY'S LAST FOREIGN DEBT REPORT (TEL AVIV A-15, JAN 20), WE BELIEVE THAT BURDEN OF FOREIGN DEBT MUST BE CONSIDERED IN CONJUNCTION WITH RESOURCES AVAILABLE FOR SERVICING DEBT. WE CONCLUDED THAT, AT LEAST THROUGH 1973, ISRAEL'S ABILITY TO SERVICE ITS FOREIGN DEBT WAS SATISFACTORY, AND THAT THERE WAS NO JUSTIFICATION FOR DEBT RESCHEDULING OR OTHER DEBT RELIEF MEASURE. THIS ASSESSMENT AND REASONING BEHIND IT WAS CONVEYED TO WASHINGTON IN TEL AVIV 626 OF JANUARY 24, TO WHICH WE WOULD ONLY ADD THAT ISRAEL'S FOREIGN EXCHANGE RESERVES WILL APPARENTLY BE HIGHER AT END OF 1973 THAN EARLIER CONTEMPLATED.

9. ACCELERATED IMPORT OF DEFENSE GOODS SINCE OCTOBER WAR RAISES PROSPECT THAT SERVICING OF NEW DEBTS CONTRACTED TO PAY FOR EMERGENCY DEFENSE IMPORTS MIGHT FORCE REASSESSMENT OF OUR CONCLUSIONS AT EARLY DATE. TO OBVIATE THAT POSSIBILITY, I RECOMMEND THAT USG ADOPT GENEROUS POLICY UNDER WHICH CONGRESS WOULD MOVE PROMPTLY TO APPROVE \$2.2 BILLION AUTHORIZATION AND ADMINISTRATION WOULD PROVIDE SIGNIFICANT PORTION OF OUR \$2.2 BILLION AID REQUEST IN GRANT FORM. GRANT AID SHOULD BE SUFFICIENT TO FINANCE EMERGENCY SHIPMENTS OF ARMS TO ISRAEL TO RESTORE ISRAEL'S MILITARY STRENGTH AT LEAST TO STATUS QUO ANTE BELLUM, ASSUMING COST WILL BE ABOUT THE \$1 BILLION WHICH ACTING SECRETARY RUSH CITED IN HIS TESTIMONY TO SENATE APPROPRIATIONS COMMITTEE NOV 5. FOR MAXIMUM IMPACT THIS SHOULD BE ANNOUNCED ASAP. EFFECT OF GRANT WOULD BE TO RELIEVE ISRAEL'S ECONOMIC APPREHENSIONS ABOUT BOP AND FOREIGN DEBT, AND REASSURE ISRAEL OF USG SUPPORT DURING DIFFICULT TIMES AHEAD. IF WE ENVISAGE A STRONG ISRAEL WHICH CAN AFFORD TO MAKE CONCESSIONS, THIS WILL BE CONSISTENT WITH SUCH A POLICY.

10. I WOULD STRESS THAT ABOVE ANALYSIS IS SHORT-RANGE, ADDRESSING ITSELF ONLY TO CALENDAR YEAR 1973. BEFORE WE TAKE ANY IRREVERSIBLE DECISIONS ABOUT LONGER-RANGE FUTURE, WE WILL ALL NEED TO KNOW MORE ABOUT NATURE OF GOI PLANS FOR FUTURE, INCLUDING LEVEL OF ARMAMENTS; AND TO ASSESS CAREFULLY IMPACT OF AMOUNTS OF AID WE MAY CONSIDER. THIS WILL REQUIRE FURTHER EXCHANGES BETWEEN EMBASSY AND DEPARTMENT AS SITUATION DEVELOPS.
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